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April 22, 2008

TO: Each Supervisor

FROM: Bruce A. Chernof, M.D. 
Director and Chief Medical Officer

SUBJECT: **DEPARTMENT OF HEALTH SERVICES (DHS)
FISCAL OUTLOOK UPDATE**

Attached for your information is a Summary of Changes in the DHS Fiscal Outlook (Attachments A1-A2) since our last report on February 19, 2008.

As indicated in the Summary of Changes (Attachment A1), the estimated cumulative Fiscal Year (FY) 2008-09 year-end shortfall is \$(197.8) million (see line 16 on Attachment A1), an improvement of \$93.1 million from our last update. The estimated cumulative two-year shortfall through FY 2009-10 is now \$(574.9) million. Although this is an improvement of \$150.5 million from our last update, a sizeable projected deficit remains. Over our five-year forecast horizon, the cumulative estimated funding shortfall for FY 2011-12 is revised to \$(1,428.6) million from the \$(1,665.8) million per our last update. The developments contributing to these changes are summarized in Attachments A1 and A2.

Financial Stabilization

The Department has included in the attachments the initial Financial Stabilization savings of \$81.0 million total for FY's 2007-08 and 2008-09, as reflected in the Proposed Budget. These savings were previously reported to you in the Chief Executive Officer's (CEO) March 26, 2008 Report on Cost Savings Options, in response to the February 19, 2008 motion by Supervisor Knabe. Also included in the attachments are additional savings of \$51.3 million primarily related to enhanced efforts to reduce pharmaceutical costs. The inclusion of these savings is the primary reason for our forecast improvement.

Managed Care Rate Supplement

On April 11, 2008, the State approved the Managed Care Rate Supplement, which is worth \$101.7 million for FY's 2006-07 through 2008-09 and \$37.0 million per year ongoing. Although these amounts were already factored into our previous forecast, this approval is important for keeping the shortfall from growing.

Balancing the Budget

Although the forecast has improved since our last report, we are still facing substantial shortfalls over the next five years, due to an ongoing structural budget deficit. Working with the CEO, we are focusing currently on resolving

the \$(574.9) million shortfall over the next two years. This shortfall cannot be solved through County resources and initiatives alone. Thus, we continue to work on key federal/state financing issues to assist in closing the gap.

The first year [FY 2008-09] is addressed in the Proposed Budget by a cost reduction placeholder, in addition to the Financial Stabilization savings and the proposed use of one-time Measure B and Tobacco Settlement funds, to balance the budget. We continue to work with the CEO to explore options to replace this placeholder with specific on-going cost reductions and/or revenue enhancements. We will return to the Board in the next several months with a report on additional progress in this area, with the goal of incorporating these as revisions during the Final Changes phase of the budget process.

In the meantime, if you have any questions or need additional information, please let me know.

BAC:aw
fiscal outlook memo 4-22-08
609:005

Attachments

c: Chief Executive Officer
County Counsel
Executive Officer, Board of Supervisors

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK
JANUARY 31, 2008 THROUGH APRIL 14, 2008

Notes

- (A) This assumes CBRC will be extended for each year beyond FY 04-05. CBRC extension for LA County's outpatient and clinic care was included in the FYs 05-06 through FY 07-08 Adopted State Budgets. A Medi-Cal State Plan Amendment to extend the program is currently pending CMS approval. FYs 10-11 and 11-12 assume Medi-Cal Redesign 1115 Waiver extension and continuance of its Coverage Initiative component.
- (B) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the \$50.1 million on Line# 7 in FY 08-09 is \$122.9 million - \$72.8 million from FY 07-08.
- (C) For FY's 08-09 through 11-12, amounts reflect LAC+USC Medical Center as a 671 bed facility; for FY's 09-10 through 11-12, amounts reflect MLK MACC converted back to a 120-bed hospital on January 1, 2010 and Rancho Los Amigos not operated by the County.
- (D) DHS is currently working with the California Department of Health Care Services to develop the County's MOE and the related issue of changing our non-hospital based delivery system. DHS will also work with the State to ensure that the Department can fully utilize the administrative components of the Coverage Initiative program.
- (E) This reflects the impact of reduced Safety Net Care Pool funds due to limited availability under the pending Federal rule.
- (F) Does not include placeholder savings of \$120.3 million, the one-time use of Tobacco Settlement funds of \$44.8 million (subsequently adjusted for the additional anticipated fund balance of \$12.1 million from FY 07-08), the one-time use of Measure B reserves of \$31.0 million, and a placeholder positions reduction of \$8.8 million included in the Proposed Budget. The Department is working on a plan to resolve this shortfall.

Attachment A2

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK
JANUARY 31, 2008 THROUGH APRIL 14, 2008

	Fiscal Year / \$ In Millions					
	07-08	08-09	09-10 ^(C)	10-11 ^(C)	11-12 ^(C)	Total
(1) Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 1/31/08 ^(A)	\$ 72.8	\$ (290.9)	\$ (725.4)	\$ (1,214.8)	\$ (1,665.8)	\$ (1,665.8)
Adjustments Included in the Proposed Budget						
(2) Include Initial <u>Financial Stabilization</u> per the Proposed Budget	33.6	47.4	26.4	26.4	26.4	160.2
(3) CEO adjust <u>employee benefit</u> costs	-	14.0	14.7	15.5	16.2	60.4
(4) CEO adjust <u>debt service</u> costs per CEO Real Estate Division, primarily for increased commercial paper interest costs in FY 08-09	-	(15.9)	0.3	0.3	0.7	(14.6)
(5) CEO increase <u>Vehicle License Fees</u> and reduce <u>County Contribution</u> (adjustment of one-time County funds from FY 07-08)	-	1.2	1.2	1.2	1.2	4.8
(6) Various <u>other adjustments</u> included in the Proposed Budget	16.5	(10.8)	(11.1)	(11.5)	(11.8)	(28.7)
(7) Forecast improvement/(reduction) roll-forward	-	50.1 ^(B)	86.0 ^(B)	117.5 ^(B)	149.4 ^(B)	-
(8) Adjusted Estimated Cumulative Year-End Fund Balances/(Shortfalls) - per Proposed Budget ^(A)	\$ 122.9	\$ (204.9) ^(B)	\$ (607.9)	\$ (1,065.4)	\$ (1,483.7)	\$ (1,483.7)
Adjustments Subsequent to the Proposed Budget						
(9) Additional <u>Financial Stabilization</u>	25.5	25.8	51.1	51.1	51.1	204.6
(10) State impact of <u>10% Provider Rate</u> reduction on CBRC and managed care revenues signed into law by the Governor	-	(12.7)	(13.0)	(13.4)	(13.7)	(52.8)
(11) Add Harbor Patient Flow Proposal offset with the redirection of SB 474 funds	-	-	(6.1)	(13.1)	(13.1)	(32.3)
(12) CEO adjust <u>County retirement</u> costs based on retirement actuarial study provided in March 2008	-	(5.1)	(5.9)	(7.0)	(8.4)	(26.4)
(13) State adjust <u>CHIP-Hospital</u> revenue	(0.1)	(5.7)	(5.7)	(5.7)	(5.7)	(22.9)
(14) Various <u>other changes</u> per the current year operating forecast received in January 2008 / Other ongoing changes	(22.4)	1.8	5.5	(4.2)	4.2	(15.1)
(15) Forecast improvement/(reduction) roll-forward	-	3.0 ^(B)	7.1 ^(B)	33.0 ^(B)	40.7 ^(B)	-
(16) Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 4/14/08 ^(A)	\$ 125.9	\$ (197.8)	\$ (574.9)	\$ (1,024.7)	\$ (1,428.6)	\$ (1,428.6)
Potential Issues/Solutions						
County						
(17) Use of one-time <u>Measure B</u> reserves (included as a placeholder in the Proposed Budget)	-	31.0	-	-	-	31.0
(18) Use of one-time <u>Tobacco Settlement</u> funds (included as a placeholder in the Proposed Budget)	-	44.8	-	-	-	44.8
(19) Reduce one-time <u>Tobacco Settlement</u> funds (based on the net improvement of \$12.1M on lines 3 through 15 above)	-	(12.1)	-	-	-	(12.1)
(20) Electronic Health Record (EHR) Pilot Initiation	-	(3.0)	(11.0)	(2.9)	(2.5)	(19.4)
(21) Emergency Department Automation	-	(2.8)	(5.3)	(1.4)	(0.7)	(10.2)
(22) Enterprise Laboratory Information System	-	(1.2)	(2.8)	(2.3)	(2.4)	(8.7)
State						
(23) Proposed State Budget	-	(24.4)	(24.1)	(23.7)	(23.4)	(95.6)
(24) Coverage Initiative Maintenance of Effort (MOE) ^(B)	-	(31.5)	(31.5)	(31.5)	(31.5)	(126.0)
Federal						
(25) Adjust CBRC revenues (hospital only) to include "crossover" patients with dual eligibility on Medicare and Medi-Cal programs	72.8	23.6	24.5	28.2	29.3	178.4
(26) Unused \$360 million Waiver funds (State-wide)	-	-	125.0	-	-	125.0
(27) Pending rule disallowing use of Interns & Residents costs for Certified Public Expenditures	-	(40.3)	(41.5)	(42.8)	(44.1)	(168.7)
(28) Adjust Medicare revenue to include President's proposed budget effective October 1, 2008	-	(5.2)	(8.6)	(14.1)	(16.2)	(44.1)
(29) Pending Federal rule limiting Medicaid reimbursement to public hospitals to Medicaid cost ^(B)	-	-	-	(228.0)	(228.0)	(456.0)
(30) TAR Authorization by Admission	-	?	?	?	?	?
(31) Forecast improvement/(reduction) roll-forward	-	72.8 ^(B)	51.7 ^(B)	76.4 ^(B)	(242.1) ^(B)	-
(32) Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - after Potential Issues/Solutions ^(A)	\$ 198.7	\$ (146.1)	\$ (498.5)	\$ (1,266.8)	\$ (1,990.2)	\$ (1,990.2)

Attachment A1